

La Caisse centrale
Desjardins du Québec

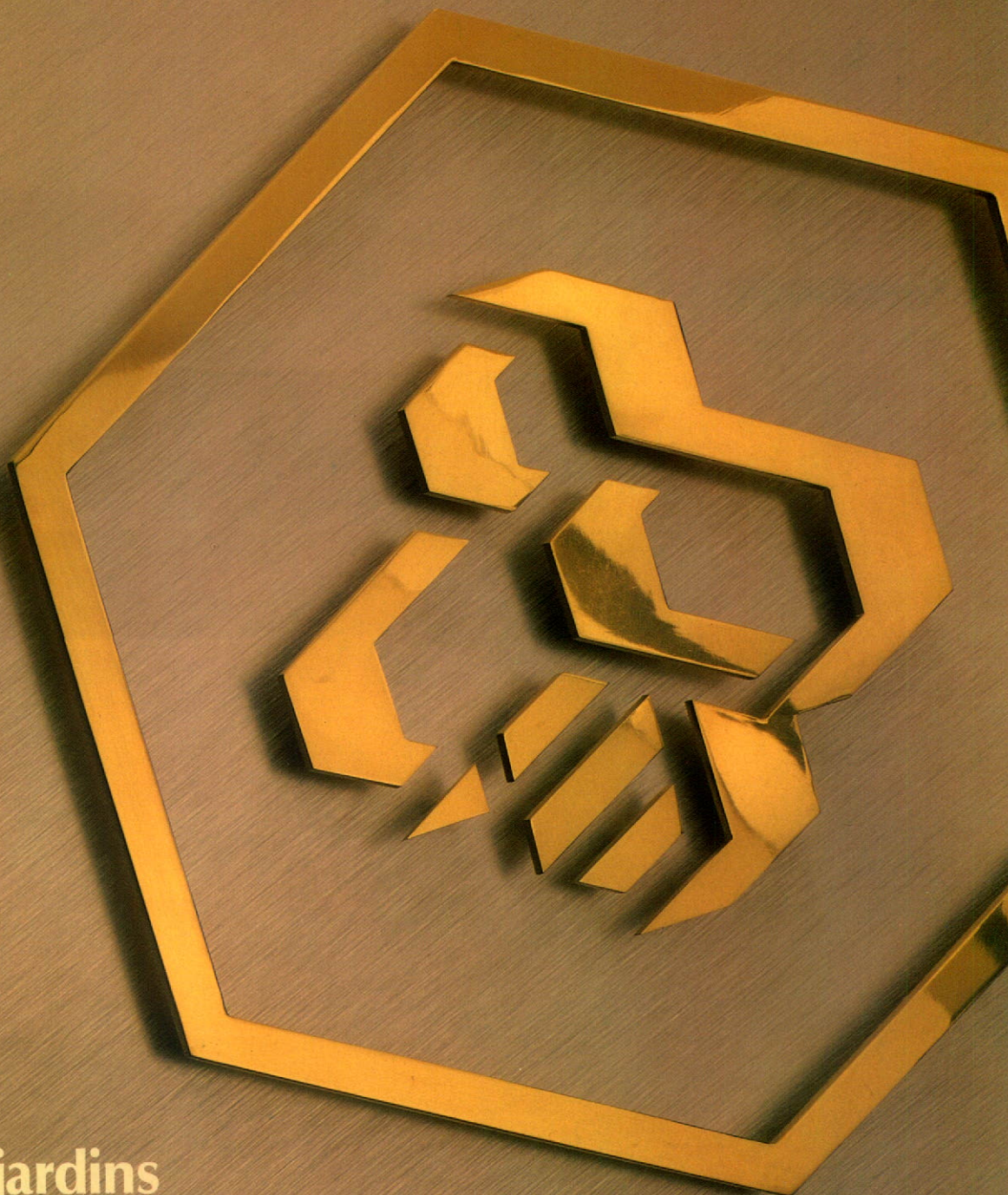


1

9

8

6



Desjardins

Contents

Financial Highlights	one
Message to Members	two
Desjardins Group	seven
Treasury and Investment	eight
Corporate Financing	ten
Banking Services and Operations	twelve
Finance and Administration	fourteen
Financial Overview	sixteen
Financial Statements	nineteen
Directors	thirty-one
Officers and General Information	thirty-two

*La version française de ce rapport
annuel est disponible sur demande.*

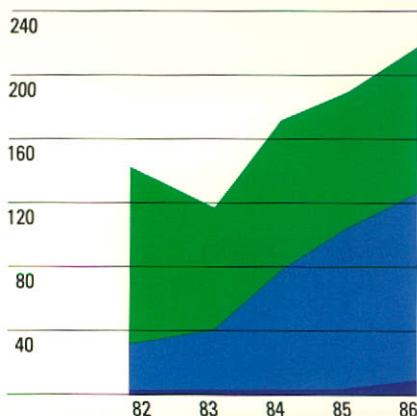
Financial Highlights 1982 - 1986

(\$ Thousands)
As at December 31

	1986	1985	1984	1983	1982
Total assets	\$2,415,555	\$2,246,997	\$1,774,334	\$1,563,457	\$1,074,832
Loans	1,211,262	967,296	858,335	539,150	218,955
Securities	1,136,780	1,140,647	871,252	943,347	830,259
Deposits	1,965,286	1,807,774	1,336,572	1,088,079	634,622
Capital and reserves	418,360	415,530	413,169	411,559	410,373
Total income	218,117	187,700	170,811	116,519	141,265
Net income	38,881	38,666	40,418	39,371	49,690
Remuneration of capital stock	38,993	42,620	45,816	46,039	59,379
Other payments to members	5,051	1,655	1,511	531	290

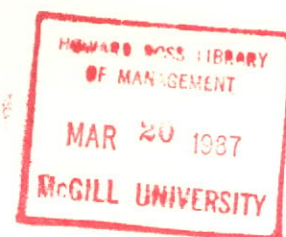
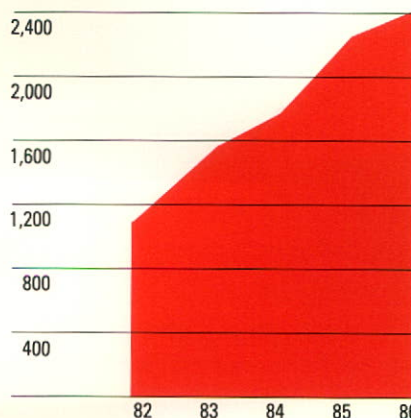
Note: Unless otherwise stated, the terms "Caisse Centrale", "Members" or "Desjardins caisses" used in this report mean La Caisse centrale Desjardins du Québec, the 11 federations of the Desjardins Group and Desjardins caisses respectively.

Total Income
(\$ Millions)



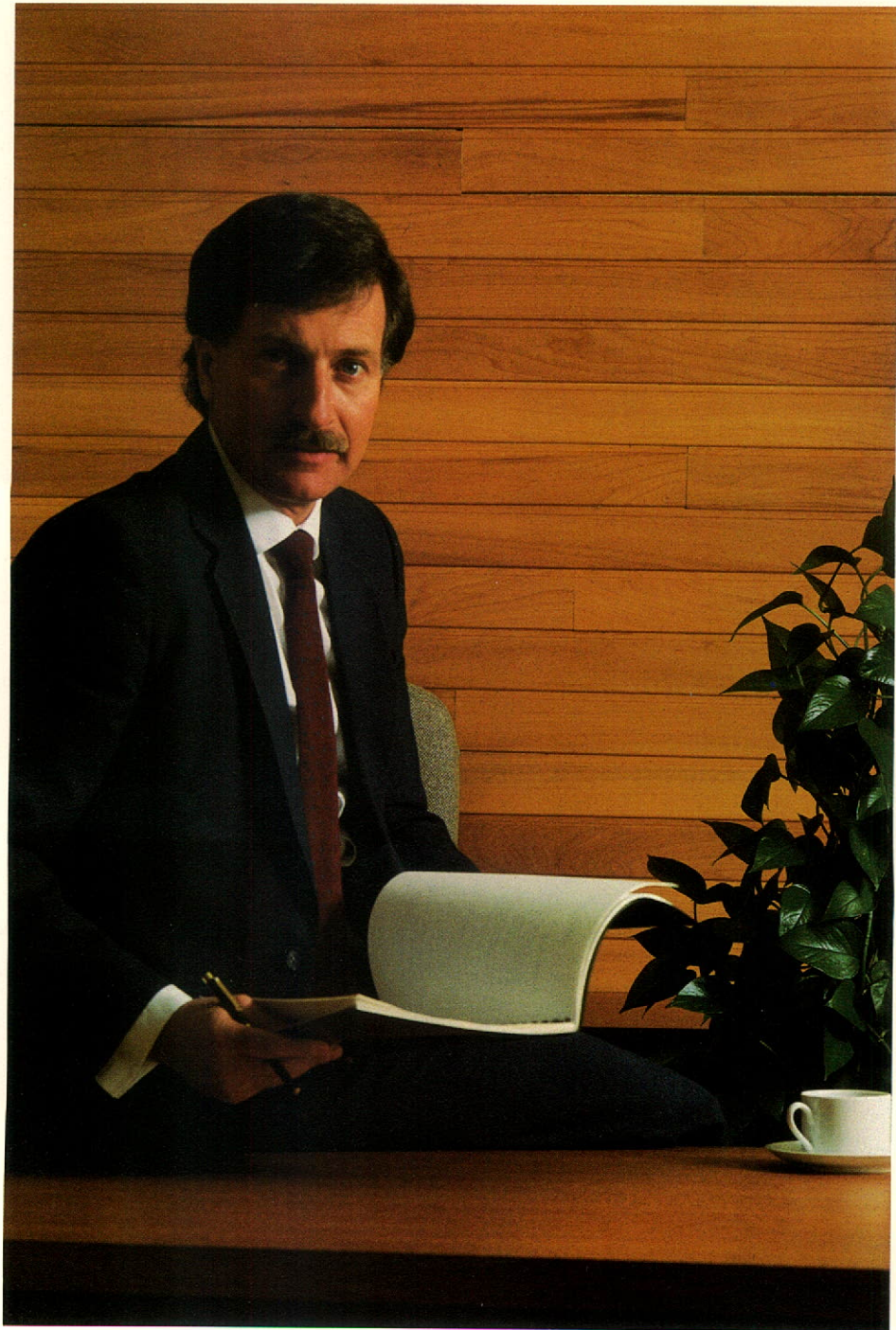
Income from securities
Income from loans
Other income

Total Assets
(\$ Millions)



The growth of our loan portfolio by 25.2% did not take place to the detriment of quality. Loans to members, to firms in the Desjardins Group and to public agencies represented 51.3% of the portfolio at December 31, 1986. Particular emphasis was placed on increasing the loan portfolio to improve the return on assets and stabilize revenues. Because of the application of rigorous policies in credit control and management, the Caisse Centrale has sustained no losses on loans in seven years of operations. Notwithstanding that loans represent the principal source of revenues of the Caisse Centrale, growth tempered with diversification of the loan portfolio will remain a major objective in the short and long term.

The Caisse Centrale applies the most advanced techniques for converting interest rates in order to reduce to a minimum the risks attributable to sharp rate changes and in order to improve its profit position. Such techniques also enabled to more efficiently manage liquid assets and thus more fully satisfy the needs of members and clients.



The announcement made by Moody's and Standard and Poor's that they were granting to the Caisse Centrale the highest credit ratings for short-term securities, that is P-1 and A-1 +, and the later confirmation by Standard and Poor's of an AA rating for long-term securities, considerably facilitated our public distribution in the European market. The ratings of the Caisse Centrale compare advantageously with those of the highest quality borrowers in Canada and throughout the world. The ratings enable the Caisse Centrale to obtain funds at very attractive terms; offer the benefits to the federations, the Desjardins caisses and clients; and invest the surpluses at a profit.

On the Canadian scene, the Canadian Bond Rating Service and Dominion Bond Rating Service granted the Caisse Centrale the very good ratings of A+ and R1-M. During 1986, the Canadian Bond Rating Service revised our medium-term rating upwards to AA.

These credit ratings are essential tools in pursuing our objective of geographical diversification of the sources of funds for the Desjardins Group. In this perspective, the Caisse Centrale will soon launch a program offering short-term certificates of deposit in the United States and Europe. In this way, the main large international financial markets will be open to the Desjardins Group.

Our excellent credit ratings reflect not only the high quality of the assets and of management at the Caisse Centrale but also the financial strength of the whole Desjardins Group. Maintenance of the best credit ratings depends essentially on the quality of the financial image that the Desjardins Group projects. This element takes on a growing importance when we are gradually reducing our surplus liquid assets.

With regard to revenues, the performance of the Caisse Centrale was satisfactory, being consistent with past years. Our net revenue, affected by the general decline in interest rates, came to \$38.9 million. Pressure remained strong on the spread between deposit and loan interest rates, and competition continued to be

severe for high quality assets. Our interest costs rose by 21.4%, while our interest revenue grew by only 14%, for a 3.9% decrease in net interest revenues. This phenomenon is due not only to shrinking margins but also to changes in the composition of our deposit liabilities. For example, demand deposits, for which interest rates are lower, dropped from \$431 million in 1985 to \$169 million on December 31, 1986, a decrease of \$262 million. At the same time our fixed-term deposits increased by \$420 million.

"Our success is the result of a team effort."

Right, Claude Béland,
President and
Chief Executive Officer,
accompanied by
Guy Bernier, Vice-
Chairman of the Board.

Revenues other than interest rose substantially in 1986, from \$3 million to \$8 million. The program for increasing revenues from activities not directly related to assets, which was reported in the 1985 Annual Report, produced the expected results in 1986 and will produce even more significant results in 1987 and following years.

A wide range of services is offered through the Desjardins Group, including computerized account collection services, direct deposit, reconciliation and consignment.

Payments for remuneration of capital stock came to \$39.0 million during the year, representing an annualized return of 9.95%. The Caisse Centrale makes monthly payments to members of the interest revenue



generated from the liquidity fund managed on behalf of the Desjardins caisses. Other payments to members reached \$5.1 million, compared with \$1.7 million in 1985. These additional revenues derived primarily from banking services to governments and certain public and private corporations.

In December 1986, the National Assembly adopted a bill amending certain sections of the Act that incorporated the Caisse Centrale. These legislative changes had the effect in particular of changing the calculation of the permissible limit of our commitments payable in foreign currency, subjecting the redemption of our shares to the prior approval of the Inspector General of Financial Institutions.

Certain provisions of the Income Tax Act were also amended at year-end by the federal government. One of these amendments provides that the interest paid to non-residents on deposits in foreign currencies by institutions that are members of the Canadian Payments Association will be exempt from withholding tax. This provision will facilitate the issuing of our short-term certificates of deposit in the American and European markets.

Due to growth, the Caisse Centrale undertook an administrative reorganization during the year. Four divisions, each one managed by a Senior Vice-President, were created: first, the Treasury and Investment Division is responsible for supplying funds and managing liquid assets; second, the Corporate Financing Division takes over responsibility for development of the loan portfolio and management of credit risks of all kinds; third, the Banking Services and Operations Division provides support for the operations of other sectors, develops banking services offered through the Desjardins caisses' network as well as the international services required by the network; and fourth, the Finance and Administration Division plans and coordinates the international development of our institution. The latter division also manages accounting and control services, legal services and human resources.

The strategy of the Caisse Centrale consists in developing and establishing products and services of high quality which are needed by the federations and the Desjardins caisses in order to face competition efficiently. These products and services must be the spearhead of the Desjardins Group in potential markets for sources of additional deposits for the federations and the Desjardins caisses.

The success of the Caisse Centrale stems from the efforts of a cohesive team of management and staff. We wish to thank them all in your name. Many thanks as well to Jean-Marie Ouellet, Denis Frenière and René Croteau, three directors who have stepped down after contributing to the deliberations and decisions of the Board since inception in 1980. Thanks also to the directors who have provided direction and devoted their energies to the success of the Caisse Centrale. We would in particular like to pay homage to Raymond Blais, who had to leave his position during the year. His exceptional competence and dynamic approach largely contributed to achieving the objectives of the Caisse Centrale.

Claude Béland was appointed Chairman of the Board of the Caisse Centrale on February 10, 1987. We wish to assure him of our collaboration and are certain that he will successfully meet the challenges of this function.



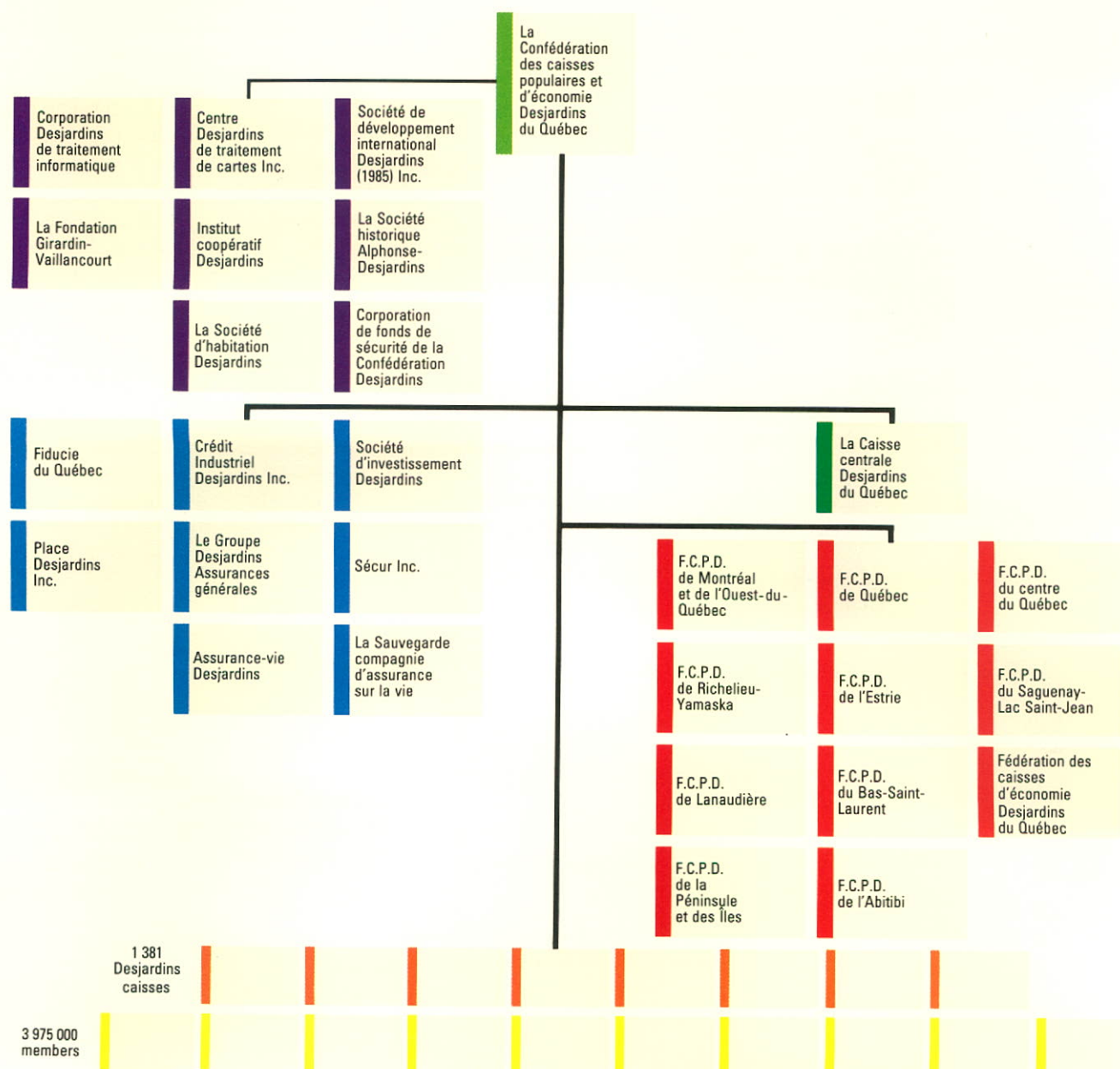
Guy Bernier

Vice-Chairman of the Board



Bruno Riverin

President and
Chief Operating Officer



Caisses, Federations and Caisse Centrale

Combined Position (\$ Millions)

Year Ended December 31	1986	1985	1984	1983	1982
Total assets	\$25,646	\$22,532	\$19,877	\$17,658	\$15,772
Deposits	23,524	20,647	18,204	16,179	14,306
Loans	20,748	17,780	15,546	13,266	10,780
Securities	3,583	3,504	3,176	3,199	3,909

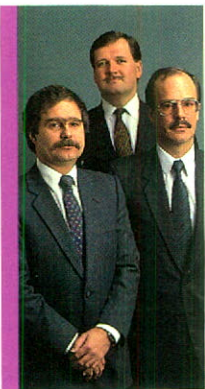
Treasury and Investment

The Treasury and Investment Division ensures to the Caisse Centrale a supply of funds on wholesale markets, manages liquidities, and provides specialized services for major investors, depositors and borrowers.

Actively managing liquid funds in excess of \$1.0 billion, the Caisse Centrale was one of the major investors in the Canadian money market in 1986, investing in high quality Canadian instruments.

In order to fulfill the role as an institutional lender and supplier of backup funds for the members of the Desjardins Group, the Caisse Centrale has established a network of partners who guarantee the supply of funds domestically and abroad.

The Caisse Centrale issues bearer discount notes and short and medium-term fixed-rate certificates of deposits and raises variable-rate deposits in Canadian financial markets. Canadian or American dollar securities are issued in Canada under a prospectus filed in every province. In comparison to nearbank financial institutions, the Caisse Centrale has in seven years become one of the most active issuers in the money market in Canada.



Alfred Pfeiffer
Kenneth G. Spurling
Daniel Leclair

Funding undergone outside Canada began in 1985 and represents an increasingly greater percentage of our deposit liabilities. At year-end, the Caisse Centrale had contracted private loans and offered public issues totalling \$288 million abroad. Some of the Caisse Centrale securities are listed on the Basel, Zurich, Geneva, Berne, Lausanne and Luxembourg stock exchanges.

Exemptions from withholding tax on interest paid to non-residents on foreign-currency deposits will allow us to launch short-term borrowing programs during the first quarters of 1987. We estimate that at the end of 1987 funding from abroad will represent over one-quarter of the Caisse Centrale's total deposits. Given the sound financial structure of the Caisse Centrale, diversification of the source of financing will continue and reduce the cost of funding even more. We will therefore be able to better serve the members and clients through access to funds at very competitive rates, variable terms and in major foreign currencies.

Our financial market specialists provide both advice and accurate, instantaneous information on market conditions to the members and clients. This approach combined with modern financial management tools, such as swaps, allow our customers to fulfill their borrowing needs adequately. From 1987 onward, this service will also be available at our Toronto office.

The establishment of a foreign exchange service at the beginning of 1986 increased the range of services we offer our clients. This new service also enabled us to strengthen business relations with large institutions and national and international firms.

The risk inherent in any treasury operation must be carefully managed and assessed. Our success is closely related to sound decision making, but also to the quality of our analysis and control systems. In addition, the considerable volatility and size of funds managed make the matching of assets and liabilities even more vital. To manage the matching of assets in accordance with a cautious policy, increasingly sophisticated treasury tools are utilized. All these services are also offered to members and clients.

Funding outside

Canada represents

an increasingly

greater percentage of

our deposit liabilities.

New York is among

the major financial

markets.



Corporate Financing

The position of the Caisse Centrale has strengthened in the area of financing for its target clients who are the members, affiliated corporations, public and parapublic institutions, and medium-sized and large businesses in Canada.

In concert with the members, the Caisse Centrale has set up mechanisms which permit the supply at any time, and at attractive terms, funds required by the federations and Desjardins caisses to maintain a sustained rate of growth, both in traditional markets as well as in small and medium-sized businesses and provincial and municipal public agencies. Services implemented by the Caisse Centrale allow the Desjardins caisses to contend effectively with the competition in these markets.

The Caisse Centrale offers banking services to institutions and companies affiliated with the Desjardins Group. Generally, these operations are concluded under similar conditions as those with third parties. In the Corporate Financing Division our success depends on the quality of advice, the originality of solutions to complex problems, quick response time and competitive pricing.

With public sector institutions, the Caisse Centrale endeavours to complement the range of services offered by the network of the Desjardins caisses. Directly, or through the federation or local caisse, the necessary financing is granted. To this end, in 1985, a financing program intended for small and medium-sized municipalities in Quebec was launched and turned out a tremendous success. More than 268 municipalities borrowed at fixed rates for periods of at least five years. Furthermore, other public sector agencies are finding the most competitive financing terms at the Caisse Centrale.

In financing medium-sized and large businesses, the Caisse Centrale has adopted tight policies with regard to risk control and management. For example, no foreign loans are granted if there exist risks associated with the political or economic development of the country in question. This approach has been successful as, since inception, no loan losses have been suffered at the international or domestic level.

Medium-sized and large businesses recognize the Caisse Centrale as a flexible, innovative lender capable of meeting the individual needs of clients, by reducing formalities and delays to a minimum. The competence and skills of our team of professionals enable the offering of high quality services. Priority is given to the accurate assessment of every client's needs. Particular attention to treasury and corporate financing activities permit our members and clients to be supplied with competitive services in the money market. One of the distinctive characteristics of the Caisse Centrale is allowing members and clients direct access to our treasury traders.

The Caisse Centrale is in favour of participating in joint ventures with banking syndicates, which not only enables the sharing of risks with other financial institutions, but also gives access to their expertise. The quality and diversification of the loan portfolio constitute one of the key elements of a financial institution's success and stability. This is why the Caisse Centrale has established strict rules regarding risk sharing and the maximum amount of loans permitted. Ultimately, members and clients are assured of the Caisse Centrale's commitment to providing first rate services.

■ ■

In Toronto, the
Caisse Centrale
is recognized
as a flexible,
innovative lender,
capable of
meeting clients'
individual needs.

■ ■



Jean Longpré
Josée Larocque
Fernand Laffleur



Banking Services and Operations

The Banking Services and Operations Division has three sections: banking services, international services and operations.

The Desjardins Group occupies a key position in Quebec. The Caisse Centrale's banking services are offered through its network to corporate clients as well as to public agencies. Thus, the Caisse Centrale offers a service which allows users to consolidate a large part of their liquidities. The computerized system of the Desjardins caisses eliminates transit delays and allows firms to fully utilize funds. In addition, a complete range of integrated banking products and services, such as active chequing accounts, bond and coupon payments, transfer of funds and electronic fund transfers, are available to our customers.

Since we recognize the individual needs and requirements of our corporate clients, products and services have been flexibly designed to offer ready-made or specially tailored products. For instance, in the case of large firms which make all disbursements through the Caisse Centrale's chequing accounts, our procedures have been adapted to their specific needs. This flexible approach has facilitated integration into the computerized financial management systems of each of our clients.



Jean-Guy Langelier
Francine Allaire
Jacques Luys

The Operations Group is also responsible for the financial settlement with the Bank of Canada of all the clearing items of the Desjardins Group. During the past year the Bank of Canada has implemented same day settlement. We have adjusted our systems in order to comply with these new requirements. While the changes were implemented, the quality of our services to members has been maintained at a high level.

The Caisse Centrale, through the member federations, provides the entire network with a complete range of international banking services, from a simple international money order and the supply of foreign currency to letters of credit.

The constantly growing needs of the federations and the Desjardins caisses combined with our own need to affirm our presence in international financial markets has prompted the expansion of our network of banking correspondents worldwide. All international financial transactions for our members and clients, as well as with foreign correspondents are now handled by the SWIFT system which ensures clear, uniform instructions and the most secure and ultra-fast transmission.

The Banking Services and Operations Division maintains open communications with the market and is constantly alert to the client's needs, listening to suggestions and looking for optimal solutions to often complex problems.

Data quality, report accuracy and information availability to clients are based on an efficient operation system. A team of multidisciplinary professionals backed up by sophisticated office and computer systems provide the Caisse Centrale with the technical support required to satisfy the most demanding client.

■ ■

In Montreal, Banking
Services and
Operations Division
maintains open
communication
with the
market and is
constantly
alert to its
clients' needs.

■ ■



Finance and Administration

In 1986, an administrative reorganization regrouped into the Finance and Administration Division the responsibilities for accounting and control, legal services, human resources and auxiliary services. All these services play a major role in the smooth operation of the Caisse Centrale and offer reliable support through which our internal management activities can meet all the administrative needs.

This reorganization enables the Caisse Centrale to place particular emphasis on the development of international activities. The Finance and Administration Division assumes responsibility for the planning and coordination of development of these activities. It furthermore maintains close institutional relations with other major players in international financial markets and ensures that the Caisse Centrale and the Desjardins Group are well known to investors.

Already in a strong position in the Canadian market, the Caisse Centrale will develop and implement as early as 1987 a program for issuing short-term securities in the United States and Europe. Merrill Lynch Money Markets Inc. will direct our banking group in the United States, while Citicorp Investment Bank Ltd., Morgan Guaranty Ltd., Shearson Lehman Brothers International, and Swiss Bank Corporation International Ltd. will form our European syndicate.



Raymond Laurin
Jean-François Couture
Jean Lafamme

A program for issuing medium-term securities on foreign markets has become necessary to satisfy the needs of the federations, the Desjardins caisses and our clients. The drop in interest rates will lead to a stronger demand for 3-year and 5-year terms, particularly in the residential mortgage business.

The Caisse Centrale holds a major place in the Canadian financial community. Close relations must be maintained not only with the government of Canada but with the provinces and government agencies responsible for the laws and regulations that govern our operations. In addition, a constant flow of information must be maintained with the Canadian and American agencies that grant credit ratings which are necessary to issue securities.

The Caisse Centrale pays considerable attention to the management of its human resources, recruitment in particular, in order to secure qualified personnel apt to develop first-rate aptitudes and expertise. Moreover, our human resources policy is designed to facilitate highly motivating career advancement. In this context, the Human Resources Department places a great importance on performance analysis, study of needs and establishment of training plans to satisfy employee and corporate needs. A wide range of high quality personal and professional services is offered to all staff members; one example is the employee assistance program.

Our physical layout is designed in terms of optimum quality of life and the ergonomics of work stations is a constant concern of senior management.

All these measures contribute to the achievement of our corporate objective which is to create and maintain a high level of satisfaction and motivation among our staff members. Only on that basis is it possible for management to ensure a strong, cohesive corporate spirit, which is reflected in a superior performance by our resources, thus placing us among the front runners of financial institutions of similar category.

■ ■

London is a
major financial
market.
The Finance
and Administration
Division
maintains close
institutional
relations with
the actors in
international
markets.

■ ■



Financial Overview

At December 31, 1986, the assets of the Caisse Centrale increased by 7.5% to \$2.4 billion which can be explained, for the most part, by a solid gain in the loan portfolio by 25.2%. More specifically, the loan portfolio totalled \$1,211.3 million at the end of fiscal 1986, compared to \$967.3 million for the previous year. Changes in components of the loan portfolio were as follows: loans to the public sector showed a significant increase of 85.2%; loans to members and affiliated companies on the other hand decreased by 25.7%; and finally, loans to companies in the private sector and to banks increased by 20.8% over the previous year. An overriding policy at the Caisse is to tightly control growth in the loan portfolio by selective acceptance procedures based on the soundness of the lending proposal but within a framework of specific objectives for risk diversification on an industry and geographic basis.

Partially offsetting the gains from the loan portfolio was a reduction in the securities portfolio to \$1,136.8 million in assets, compared with \$1,140.6 million at the end of 1985. The securities portfolio consists mainly of high-quality money-market securities and its size underscores the importance of the Caisse Centrale's role in managing a portion of the primary liquidities of the Desjardins caisses and in maintaining liquid reserves for its own operations.

A better understanding of the growth of the operations of the Caisse Centrale can be achieved by examining the changes in the average annual assets and its components. Average annual assets rose from \$1.5 billion in 1984 to \$1.9 billion in 1985 and climbed to \$2.3 billion in 1986. The average volume of securities, in contrast, increased by \$220 million in 1986 to \$1,084 million from \$864 million. However, the average of loans outstanding on an annual basis evidenced a healthy growth of 25.5%, increasing from \$894 million in 1985 to \$1,122 million in 1986.

Turning to the liability side, total deposits amounted to \$2.0 billion at year-end, versus \$1.8 billion in 1985, an increase of 8.7%. The second diagram shows the breakdown of total deposits at year-end. Demand deposits dropped from \$430.8 million at December 31, 1985 to \$168.5 million in 1986. This change is due mainly to Government of Canada deposits, which decreased from \$347.7 million in 1985 to \$277.1 million in 1986. In addition, deposits by members and affiliated companies decreased by 44.2% in 1986 to \$144.6 million from \$259.3 million. The previously mentioned increase in total assets was, however, funded mainly by other deposits raised in the money market. These deposits increased from \$1.2 billion in 1985 to \$1.5 billion at the end of 1986, an increase of 29.4%.

\$94.1 million, an increase of 13.4% compared to the previous year. Finally, other income dramatically grew by 141.0%, reaching \$7.8 million. In order to fully appreciate the above-mentioned results, it should be noted that income from loan operations is based on 3 factors: first, the spread between the rates at which the Caisse Centrale obtains funds from its depositors and those at which it lends these funds; second, the volume of operations; and third, the trend of interest rates. Income from investment activities, in turn, also depends largely on the extent of changes in interest rates for high quality money-market paper. For example, the rate of return on the liquidity fund reached a monthly peak of 10.83% in April and finished at 8.62% for the month of December with an annual rate of return at 9.53%.

Financial Results

Total income for the year from loans, securities and other sources reached a record \$218.1 million, compared to \$187.7 million in 1985. This increase of 16.2% is attributable, to a large extent, to income from loans which increased from \$101.4 million to \$116.2 million or 14.6%. Income from securities was

Breakdown of Loan Portfolio
(\$ Millions)

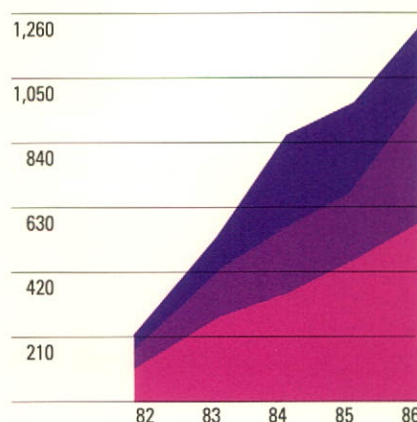
As at December 31	1982	1983	1984	1985	1986
Loans to members and Desjardins Group affiliates	41	114	293	288	214
Loans to public organizations	59	146	210	220	408
Loans to private corporations	119	279	355	459	589
Total	219	539	858	967	1,211

Deposits at Year-end
(\$ Millions)

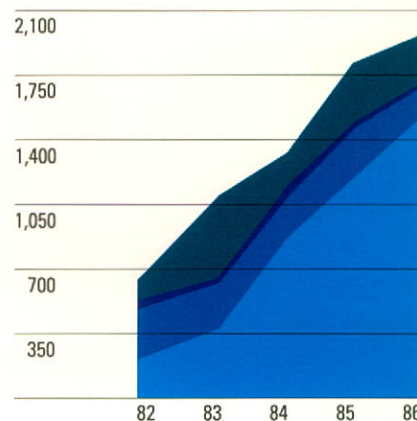
As at December 31	1982	1983	1984	1985	1986
Deposits by Government of Canada	131	457	187	348	277
Deposits by other public organizations	25	16	34	16	11
Deposits by members and Desjardins Group affiliates	272	240	230	259	144
Other deposits	207	375	886	1,185	1,533
Total	635	1,088	1,337	1,808	1,965
Average deposit liabilities	563	734	1,099	1,421	1,838

Breakdown of the Securities Portfolio
(\$ Millions)

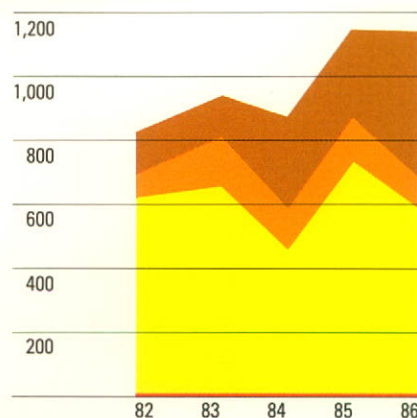
As at December 31	1982	1983	1984	1985	1986
Canada	135	134	283	260	438
Provinces	73	154	127	137	109
Other Canadian issuers	621	654	460	743	589
Foreign issuers	1	1	1	1	1
Total	830	943	871	1,141	1,137



Loan operations generated 53.3% of total income in 1986, compared to 54.0% in 1985 and 44.3% in 1984. Security transactions accounted for 43.2% of total income in 1986, compared to 44.2% in 1985 and 54.5% in 1984. Other income increased in relative terms each year and is currently at 3.5% of total income.

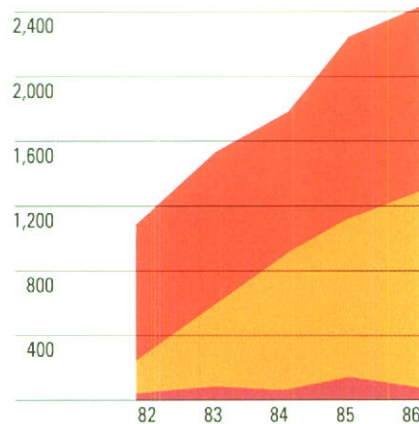


Income before provision for income taxes generated from the Caisse Centrale's activities reached \$47.5 million compared to \$47.2 million the previous year. An amount of \$44.0 million was allocated to the remuneration of capital stock and other payments to members; the foregoing represents an annualized return of 9.95% on invested capital, compared to 10.90% in 1985. Considering the major importance of capital in the balance sheet of the Caisse Centrale (17.3%), the return earned is closely related to the level of interest rates in the financial market. Other payments to members amounted to \$5.1 million, compared to \$1.7 million the previous year.



Total Assets
(\$ Millions)

As at December 31	1982	1983	1984	1985	1986
Securities	830	943	871	1,141	1,137
Loans	219	539	858	967	1,211
Other Assets	26	81	45	139	68
Total	1,075	1,563	1,774	2,247	2,416
Average assets	997	1,171	1,548	1,873	2,284



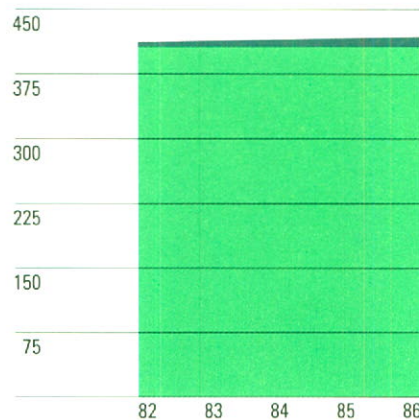
Notwithstanding the high quality of our loan portfolio, for conservative reasons, a provision for loan losses in the amount of \$2.0 million was expensed in reduction of net interest revenue. To date, no assets have been written off against this provision, which has currently reached a cumulative amount of \$5.5 million.

After remuneration of capital stock and other payments to members, net income for the Caisse Centrale was \$2.8 million. This amount was transferred in its entirety to the general reserve as a provision for contingencies.

Capital and Reserves
(\$ Millions)

As at December 31	1982	1983	1984	1985	1986
Financial Leverage*	2.62:1	3.80:1	4.29:1	5.40:1	5.77:1
Retained earnings and reserve	1.0	2.2	3.8	6.1	9.0
Capital Stock	409.4	409.4	409.4	409.4	409.4
Total	410.4	411.6	413.2	415.5	418.4

* Total assets/members' equity



Consequently, the general reserve rose to \$9.0 million while capital stock remained stable at \$409.4 million. Financial leverage ratio as a result increased to 5.8 in 1986, compared to 5.4 in 1985. It should be emphasized that this ratio compares very favorably to the banking industry in Canada and to the maximum ratio of 20 permitted in the Constituting Act of the Caisse Centrale.

F i n a n c i a l S t a t e m e n t s**Contents**

Financial Statements Year Ended December 31, 1986	twenty
Statement of Assets and Liabilities	twenty
Statement of Income	twenty-two
Statement of Retained Earnings and General Reserve	twenty-three
Statement of Changes in Financial Position	twenty-four
Notes to Financial Statements	twenty-five
Management's Report	twenty-nine
Auditors' Report	thirty

Statement of Assets and Liabilities

December 31	1986	1985
Assets		
Cash Resources		
Cash and deposits with Bank of Canada	\$ 39,071,048	\$ 56,737,016
Cheques and other items in transit, net	6,177,743	58,190,570
	45,248,791	114,927,586
Securities (note 3)		
Issued or guaranteed by Canada	438,310,738	259,454,836
Issued or guaranteed by provinces and municipal or school corporations	108,888,136	137,318,806
Other securities	589,581,601	743,872,987
	1,136,780,475	1,140,646,629
Loans		
Day, call and short loans to investment dealers and brokers, secured	65,000,000	25,000,000
Other loans (note 4)	1,146,261,665	942,296,454
	1,211,261,665	967,296,454
Other Assets		
Fixed assets, less accumulated depreciation	2,110,449	1,041,285
Other assets (note 5)	20,153,607	23,085,074
	22,264,056	24,126,359
	\$2,415,554,987	\$ 2,246,997,028

December 31

1986

1985

Liabilities**Deposits** (note 6)

Payable on demand

\$ 168,451,177

\$ 430,822,533

Payable on a fixed date

1,796,834,387

1,376,951,221

1,965,285,564

1,807,773,754

Other Liabilities

Other liabilities (note 7)

31,909,574

23,692,858

31,909,574

23,692,858

Capital and Reserves**General Reserve**

8,956,849

6,127,416

Capital Stock (note 8)

Issued and fully paid: 409,403 shares

409,403,000

409,403,000

Retained Earnings (note 9)

—

—

418,359,849

415,530,416

\$2,415,554,987

\$2,246,997,028

On behalf of the Board,



Director



Director

Statement of Income

Year Ended December 31	1986	1985
Interest Income		
Loans	\$116,196,063	\$101,432,272
Securities	94,141,838	83,039,931
Total interest income	210,337,901	184,472,203
Interest Expense	158,549,620	130,603,185
Net Interest Income	51,788,281	53,869,018
Provision for loan losses	2,000,000	1,750,000
Net Interest Income After Provision for Loan losses	49,788,281	52,119,018
Other income	7,779,480	3,227,410
Net Interest and Other Income	57,567,761	55,346,428
Non-Interest Expenses		
Salaries	4,488,503	3,444,809
Pension and other staff benefits	770,626	578,913
Premises, equipment and furniture including amortization of deferred charges	2,250,331	1,913,890
Other expenses	2,557,839	2,254,897
Total non-interest expenses	10,067,299	8,192,509
Income Before Provision for Income Taxes	47,500,462	47,153,919
Provision for income taxes		
Current	7,992,149	7,969,705
Deferred	627,000	518,000
	8,619,149	8,487,705
Net Income (note 17)	\$ 38,881,313	\$ 38,666,214

Statement of Retained Earnings and General Reserve

Year Ended December 31

1986

1985

Retained Earnings

Balance at beginning of year	\$ —	\$ —
Net income for the year	38,881,313	38,666,214
Remuneration of capital stock and other payments to members	(44,044,029)	(44,274,933)
Recovery of income taxes related to the remuneration of capital stock and other payments to members	7,992,149	7,969,705
Transfer to general reserve	(2,829,433)	(2,360,986)
Balance at end of year	\$ —	\$ —

General Reserve

Balance at beginning of year	\$ 6,127,416	\$ 3,766,430
Transfer from retained earnings	2,829,433	2,360,986
Balance at end of year	\$ 8,956,849	\$ 6,127,416

Statement of Changes in Financial Position

Year Ended December 31	1986	1985
Operating Activities		
Net income	\$ 38,881,313	\$ 38,666,214
Items not affecting cash resources:		
Provision for loan losses	2,000,000	1,750,000
Depreciation expense	366,650	254,361
Amortization of preliminary expenses	274,623	345,996
Amortization of integrated computer system development costs	115,068	178,005
Deferred income taxes	627,000	518,000
Cash resources provided by operations	42,264,654	41,712,576
Net change in other assets and liabilities	12,130,676	(1,835,415)
Net cash resources provided by operations	54,395,330	39,877,161
Financing Activities		
Deposits	157,511,810	471,202,078
Cash resources available before investment activities and remuneration of capital stock	211,907,140	511,079,239
Investment Activities		
Securities	(3,866,154)	269,394,690
Loans	245,965,211	110,711,375
Fixed assets	1,435,814	497,499
	243,534,871	380,603,564
Remuneration of capital stock and other payments to members, net of related recovery of income taxes	38,051,064	39,885,180
Increase (decrease) in cash resources	(69,678,795)	90,590,495
Cash resources at beginning of year	114,927,586	24,337,091
Cash resources at end of year	\$ 45,248,791	\$114,927,586

Notes to Financial Statements

December 31, 1986

1. Incorporation

La Caisse centrale Desjardins du Québec was established on June 22, 1979, by an Act of the Quebec Legislature [an Act to amend the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (S.Q. 1971 c.80 — S.Q. 1979 c. 46 and amendments)]. La Caisse centrale Desjardins du Québec is a cooperative institution that is also governed by the Savings and Credit Unions Act of Quebec.

2. Significant Accounting Policies and Principles*a) Securities:*

Securities other than those of a foreign issuer are shown at amortized cost. Premiums and discounts are amortized over the terms of the related securities under the straight-line basis. Any permanent impairment in the value of securities is charged to income. Gains and losses on the disposal of securities are included in income when incurred.

Amortization of premiums and discounts, gains and losses incurred on the disposal of securities and adjustments in the value of securities are included in "Interest income from securities" in the statement of income.

Investments in securities of a foreign issuer are shown at cost.

b) Loans:

Loans are stated at their principal value, net of unamortized discounts and less specific and general provisions for estimated losses, as applicable. Accrued interest on loans is included in "Other assets" in the statement of assets and liabilities.

Interest income is recorded on the accrual basis. Loans are placed on a nonaccrual basis whenever (a) there is doubt regarding the collectibility of principal or interest or (b) when payment of interest is ninety days past due unless management determines that the collectibility of principal and interest is not reasonably in doubt. Upon classification of a loan to a nonaccrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, amounts received on nonaccrual loans are recorded as interest income on the date of receipt.

The provision for loan losses for the year is charged to the statement of income. The provision for loan losses is determined as a result of an evaluation of each outstanding loan. La Caisse centrale Desjardins du Québec also provides for a general provision on outstanding loans.

c) Interest Rate and Cross Currency Swaps:

La Caisse centrale Desjardins du Québec enters into interest rate and cross currency swaps as a principal in order to manage interest rate and foreign currency exposure. Income or expense associated with interest rate and cross currency swaps is recorded over the life of the agreements.

d) Fixed Assets:

Fixed assets are recorded at historical cost and depreciated over their estimated useful lives in accordance with the following methods and annual rates:

Classes of Fixed Assets	Depreciation Methods	Rates
Office furniture and equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Computer software	Straight-line	20%
Leasehold improvements	Straight-line	4%

e) Deferred Charges:

The integrated computer system development costs are amortized under the straight-line basis over a ten-year period from the beginning of operations of the various applications.

Preliminary expenses represent operating expenses incurred during the period of establishment of La Caisse centrale Desjardins du Québec. They are amortized under the straight-line basis over a five-year period beginning October 14, 1981.

f) Foreign Currency Translation:

Assets and liabilities denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year.

Foreign exchange trading positions, including spot and forward contracts, are valued monthly at prevailing market rates and the resulting gains and losses are included in "Other income".

g) Income Taxes:

La Caisse centrale Desjardins du Québec provides for income taxes using the tax allocation method. Deferred income taxes arise from claiming preliminary expenses and integrated computer system development costs for tax purposes whereas they

are amortized for book purposes over periods of five and ten years respectively. In addition, the tax allowable loan loss provision differs from the amount recorded in the financial statements.

The recovery of income taxes shown in the statement of retained earnings relates to the remuneration of capital stock and other payments to members which, for income tax purposes, are deductible.

3. Securities

	Maturity				1986		1985	
	Within 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Carrying value	Market value	Carrying value	Market value
Securities issued or guaranteed by								
Canada	\$ 426,796,983	\$10,995,181	\$ —	\$ 518,574	\$ 438,310,738	\$ 438,314,137	\$ 259,454,836	\$ 259,828,437
Provinces, municipal or school corporations in Canada	108,543,562	344,574	—	—	108,888,136	108,832,665	137,318,806	137,313,800
Other Securities								
Securities of								
Canadian issuers								
Banks *	449,062,017	—	—	—	449,062,017	449,147,350	647,891,019	647,691,523
Associated corporations	15,150,851	—	—	—	15,150,851	15,184,219	24,969,682	24,965,000
Other issuers **	107,805,877	2,926,220	7,788,388	5,528,922	124,049,407	123,956,289	69,707,960	69,911,066
Shares of a Canadian and a foreign issuer ***	1,319,326	—	—	—	1,319,326	1,319,326	1,304,326	1,304,326
Total	\$1,108,678,616	\$14,265,975	\$7,788,388	\$6,047,496	\$1,136,780,475	\$1,136,753,986	\$1,140,646,629	\$1,141,014,152

* Includes all deposits with banks.

** Includes deposits with financial institutions allowed to raise deposits of an amount of \$38,368,318 (1985 — \$36,710,830).

*** These securities have no stated maturity and include \$200,046 of an associated corporation (1985 — \$200,046).

4. Other Loans

	1986	1985
Public and parapublic institutions	\$ 407,739,195	\$ 220,152,833
Banks	8,024,590	8,031,240
Members	131,350,609	128,582,683
Other associated corporations	82,449,464	159,335,884
Other — private sector	516,697,807	426,193,814
	\$1,146,261,665	\$ 942,296,454

5. Other Assets

	1986	1985
Accrued interest	\$ 14,016,731	\$ 20,082,690
Integrated computer system development costs, less amortization	870,808	985,876
Preliminary expenses, less amortization	—	274,623
Other assets	5,266,068	1,741,885
	\$ 20,153,607	\$ 23,085,074

6. Deposits

	1986	1985
Canada	\$ 277,080,403	\$ 347,693,000
Provinces	10,500,259	16,096,171
Banks	296,962,226	159,216,420
Members — for clearing purposes	30,630,477	60,903,753
— for other purposes	50,129,078	160,943,712
Other associated corporations	63,886,293	37,481,848
Other deposits	1,236,096,828	1,025,438,850
	\$1,965,285,564	\$1,807,773,754

7. Other Liabilities

	1986	1985
Remuneration of capital stock payable	\$ 5,960,122	\$ 7,959,306
Accrued interest	21,977,457	12,113,794
Other liabilities	1,973,595	2,248,358
Deferred income taxes	1,998,400	1,371,400
	\$ 31,909,574	\$ 23,692,858

8. Capital Stock

The capital stock of La Caisse centrale Desjardins du Québec is composed of the shares subscribed for by its members. The value of each share is \$1,000 and no share can be issued without having been fully paid for.

La Caisse centrale Desjardins du Québec may, if authorized in writing by the Inspector General of Financial Institutions, redeem the shares held by a member applying therefor. Such a redemption shall be made at par value but must not leave La Caisse centrale Desjardins du Québec with insufficient capital stock to meet its requirements. La Caisse centrale Desjardins du Québec cannot redeem more than 10% of its capital stock during the same financial year. No redemption can be made if it would result in reducing the capital stock to less than \$25,000,000.

9. Retained Earnings

The directors of La Caisse centrale Desjardins du Québec have approved the transfer of the full amount of retained earnings as at December 31, 1986 to the general reserve as a provision for contingencies.

10. Remuneration of Capital Stock

The act incorporating La Caisse centrale Desjardins du Québec stipulates that the Board of Directors can declare interest on the capital stock; it then fixes the date of payment. It cannot declare or pay interest on capital stock if this would render La Caisse centrale Desjardins du Québec insolvent or decrease the paid-up capital stock.

11. Guarantees and Letters of Credit

La Caisse centrale Desjardins du Québec guarantees the payment of the debts of clients. Such amounts, not reflected in the statements of assets and liabilities, are as follows:

	1986	1985
Guarantees	\$ 761,811	\$ 50,000
Letters of credit	401,321	192,177
	\$1,163,132	\$242,177

12. Other Related Party Transactions

Transactions with members and other associated corporations of the Desjardins Group are concluded on terms similar to those with unrelated parties.

	1986	1985
Cheques and other items in transit, debit balance	\$ 1,330,762	\$ 1,950,616
Other assets	4,682,481	7,143,458
Other liabilities	7,510,466	9,819,469
Interest income	24,870,721	33,072,627
Interest expense	11,431,689	12,698,799
Other income	820,116	665,891

13. Long-Term Leases

La Caisse centrale Desjardins du Québec is committed under long-term leases expiring up to April 30, 2005 to pay total basic rent of \$7,418,666 for office space. The annual rental payments for the next five years are as follows:

1987 — \$442,390;	1988 — \$442,390;	1989 — \$442,390;
1990 — \$441,280;	1991 — \$462,621.	

14. Pension Plan

La Caisse centrale Desjardins du Québec has an employee pension plan with which all employees are registered automatically at age 25 on a joint contributory basis.

An actuarial valuation of the pension plan is performed at least every three years. As at January 1, 1985, the date of the latest valuation, the pension plan was fully funded.

The total pension expense, arising from employer contributions, aggregated \$366,692 for the year ended December 31, 1986 (1985 — \$268,093).

15. Contingency

In 1981, La Caisse centrale Desjardins du Québec acquired 1.5% of the capital stock of a foreign bank. At the time of this acquisition, La Caisse centrale Desjardins du Québec agreed by way of a support letter to assume, in proportion to its equity, certain obligations in accordance with the Bank of England's requirements for foreign-owned banks in Great Britain.

16. Segmented Information

La Caisse centrale Desjardins du Québec has a dominant industry segment consisting of deriving income from interest on loans and securities and other related activities in Canada.

17. Comparative Figures

Remuneration of capital stock and other payments to members in the amount of \$44,044,029 (1985: \$44,274,933) and related income taxes in the amount of \$7,992,149 (1985: \$7,969,705) are shown on the statement of retained earnings. Previously these amounts appeared on the statement of income. The purpose of this change in presentation is to dissociate the remuneration of capital stock and other payments to members made by La Caisse centrale Desjardins du Québec from the results of its operations.

Certain other comparative figures have also been reclassified to conform with the presentation adopted in the current year.

Management's Report

Management is responsible for the preparation of the financial statements and related information appearing in the Annual Report and for ensuring reliability and accuracy. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and include estimates based on the best judgment of management. Financial information included elsewhere in the Annual Report is consistent with the financial statements.

The accounting system of the Caisse Centrale and the related internal controls and procedures are designed to ensure the reliability of financial information and, to a reasonable degree, the safeguard of assets against loss or unauthorized use. These procedures include quality standards in hiring and training of employees, an organizational structure with clearly defined lines of responsibility, written and up-dated policies and procedures, planning and follow-up of projects, budget controls by cost centers, and divisional performance accountability.

The Inspector General of Financial Institutions annually makes an examination of the affairs of the Caisse Centrale for the purpose of satisfying that the provisions of the Constituting Act, particularly with respect to the protection of the depositors, are being duly observed and that the Caisse Centrale is in a sound financial condition.

The Board of Directors has formed an Audit Committee composed solely of non-management directors to review the responsibilities of management with respect to the financial statements and internal controls. The Board of Directors has approved all of the information contained in the Annual Report.

The independent auditors appointed by the general meeting of members, Raymond, Chabot, Martin, Paré and Touche Ross, have the responsibility of auditing the financial statements in accordance with generally accepted auditing standards and their report follows.



Guy Bernier

Vice-Chairman of the Board



Bruno Riverin

President and
Chief Operating Officer

A u d i t o r s' R e p o r t

To the Members of
La Caisse centrale Desjardins du Québec

We have examined the statement of assets and liabilities of La Caisse centrale Desjardins du Québec as at December 31, 1986, and the statements of income, retained earnings and general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of La Caisse centrale Desjardins du Québec as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Raymond, Chabot, Martin, Paré

Raymond, Chabot, Martin, Paré
Chartered Accountants

Touche Ross

Touche Ross
Chartered Accountants

Montreal
January 29, 1987

D i r e c t o r s

Claude Béland

Town of Mount Royal
Chairman of the Board
(appointed February 10, 1987)
President
La Confédération des caisses populaires et
d'économie Desjardins du Québec

Jean-Eudes Bergeron

Métabetchouan
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins du Saguenay-Lac St-Jean

Claude Deslandes*

St-Hyacinthe
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de Richelieu-Yamaska

Gilles Lafleur*

Mirabel
Senior Vice-President and
General Manager
Fédération des caisses d'économie
Desjardins du Québec

Albert Ouellet

Maria
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de la Péninsule et des îles

Associate Director:**Georges Lafond**

Outremont
Senior Vice-President, Finance
La Confédération des caisses populaires et
d'économie Desjardins du Québec

Guy Bernier*

Montreal
Vice-Chairman of the Board
President and Chief Executive Officer
Fédération des caisses populaires
Desjardins de Montréal et de
l'Ouest-du-Québec

Paul-Roch Charbonneau**

Joliette
General Manager
Fédération des caisses populaires
Desjardins de Lanaudière

A. Hervé Hébert*

Outremont
President
Quebec Trust

Marc Lemieux

St-Nicolas
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de Québec

François Richard**

Laval
Senior Vice-President and General
Manager, Administration
Fédération des caisses populaires
Desjardins de Montréal et de
l'Ouest-du-Québec

Jacques Bertrand*

Ste-Foy
Secretary of the Board
President
Fédération des caisses populaires
Desjardins de Québec

Raymond Comtois* **

Sherbrooke
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de l'Estrie

Wesley Hogg

Rimouski
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins du Bas St-Laurent

Denis Martel

Amos
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de l'Abitibi

Henri-Paul Trudel

Trois-Rivières Ouest
President
Fédération des caisses populaires
Desjardins du Centre du Québec

* Member of the Executive Committee

** Member of the Audit Committee

Officers and General Information

Claude Béland

President and Chief
Executive Officer (02-10-87)

Fernand Lafleur

Senior Vice-President,
Corporate Financing

Raymond Laurin

Vice-President,
Control and Administration

Alfred Pfeiffer

Vice-President,
Treasury

Bruno Riverin

President and Chief
Operating Officer

Jean-Guy Langelier

Senior Vice-President,
Operations and Banking Services

Jean Longpré

Vice-President,
Corporate Financing

Kenneth Spurling

Vice-President,
Treasury
(Toronto)

Jean Laflamme

Senior Vice-President,
Finance and Administration

Daniel Leclair

Senior Vice-President,
Treasury and Investment

Jacques Luys

Vice-President,
Operations

Head Office

100, avenue des Commandeurs
Levis, Quebec
G6V 7N5

Executive Offices

1, Complexe Desjardins
South Tower
Suite 2822
Montreal, Quebec
H5B 1B3
Telephone: (514) 281-7070
Telex: 055-61688

150 King Street West
Suite 1502
Toronto, Ontario
M5H 1J9
Telephone: (416) 599-9301

Auditors

Raymond, Chabot, Martin, Paré
Montreal, Quebec

Touche Ross
Montreal, Quebec

**Issuing and Paying Agent,
Transfer Agent**

The Royal Bank of Canada:
Quebec City, Vancouver, Calgary,
Edmonton, Winnipeg, Toronto and Halifax

Securities Brokers

Merrill Lynch Canada Incorporated
Wood Gundy Ltd.
Burns Fry Ltd.
Dominion Securities Pitfield Ltd.
Lévesque, Beaubien Inc.
McLeod Young Weir Ltd.

Prospectus

A copy of the Canadian Prospectus of the
Caisse Centrale may be obtained through
the Caisse Centrale or its brokers.

La Caisse centrale Desjardins du Québec is
a direct clearing member of the Canadian
Payments Association.

1986 Annual Report
ISSN 0715-8149
Legal Deposit, 1st quarter 1987
Bibliothèque nationale du Québec

This Annual Report is published by the
Corporate Financing Division of the Caisse
Centrale Desjardins.

